

Fiscal Highlights

Impact of Recent Federal Tax Changes on Utah Residents and Government - Thomas E. Young

By how much will the recent federal tax increases reduce disposable income to residents of the state?

When adding up the tax-rate changes to single and married individuals making over \$400,000/\$450,000 in certain instances, and \$200,000/\$250,000 in other instances, as well as the reinstatement of the payroll tax holiday, residents will likely see a decrease in personal income of about \$2.5 billion in 2013.

The major tax changes that came in 2013 include:

- Increased tax rates on ordinary income, capital gains, and dividends for those making more than \$400,000 for single filers and \$450,000 for married filers;
- A 3.8% tax rate on unearned income for single filers making over \$200,000 and \$250,000 for married filers;
- An additional 0.9% Medicare payroll tax on earned income for single filers above \$200,000 and for married filers above \$250,000;
- Expiration of the payroll tax holiday, which represents a 2% tax increase for income under \$113,700; and
- Phasing out of personal exemptions and itemized deductions for certain income levels.

| Major Federal Tax Changes—2013 | | |
|--|---------------------------------------|---|
| <i>Area</i> | <i>2012</i> | <i>2013</i> |
| Ordinary income & short-term capital gains, making over \$400K (single)/\$450K (married) | 35% | 39.6% |
| Long-term capital gains, making over \$400K/\$450K | 15% | 20% |
| Dividends Ordinary dividends Qualified dividends | Ordinary Rates | Ordinary Rates |
| Unearned income (Medicare contribution) | None | 3.8% over \$200,000/\$250,000 |
| Medicare payroll tax | 2.9%; individual 1.45%/employer 1.45% | Additional 0.9% on earned income >\$200,000/\$250,000 |
| Payroll tax holiday | 4.2% up to \$113,700 | 6.2% up to \$113,700 |
| Personal exemption phaseout (PO) | None | 2% PO |
| Itemized deduction phaseout (PO) | None | 3% PO |

The largest portion of the tax increase stems from the expiration of the payroll tax holiday at about \$1.2 billion. In terms of state revenue, a \$2.5 billion reduction in personal income equates to about a \$125 million reduction in General/Education Fund revenue, with most of that being individual income tax and sales tax.